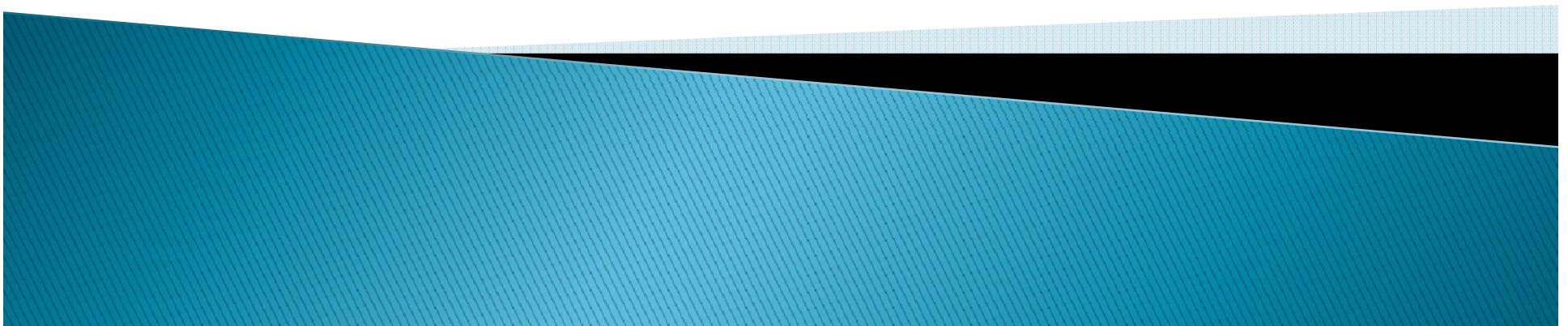


# Governor C.L. “Butch” Otter’s Zero-Base Budget Initiative

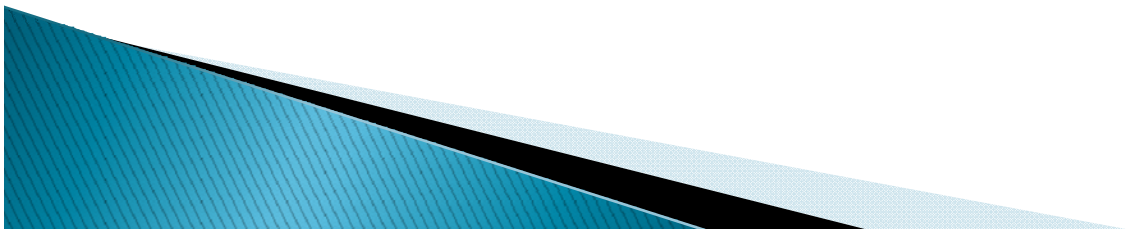
*Budgeting with a Planning and Performance Twist*

David Hahn  
Division of Financial Management



# Overview of Where We're Headed

- ▶ Governor Otter's ZBB Initiative
- ▶ Goals
- ▶ Description
- ▶ Benefits
- ▶ Steps
- ▶ Expectations



# Zero-Base Budget Initiative

“Citizens have a right to expect public officials to act responsibly, and a duty to hold public officials accountable. That’s especially true when it comes to how their money is spent – which is why I plan to implement Zero-Base Budgeting for all state agencies and institutions, beginning with fiscal 2010.

We’ll start from scratch in reviewing and justifying each agency’s budget on a six-year rotating schedule. That means the first set of agency budgets will get a zero-base review as we develop proposals for you to consider next year.

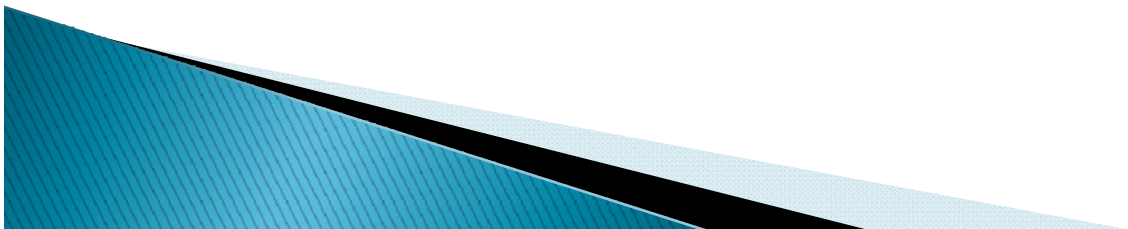
The first cycle will be complete in fiscal 2015. The idea is consistent with taxpayers’ wishes. And it will enable us to assert greater fiscal discipline while making the most of every taxpayer dollar.”



– Governor C.L. “Butch” Otter  
2008 State of the State

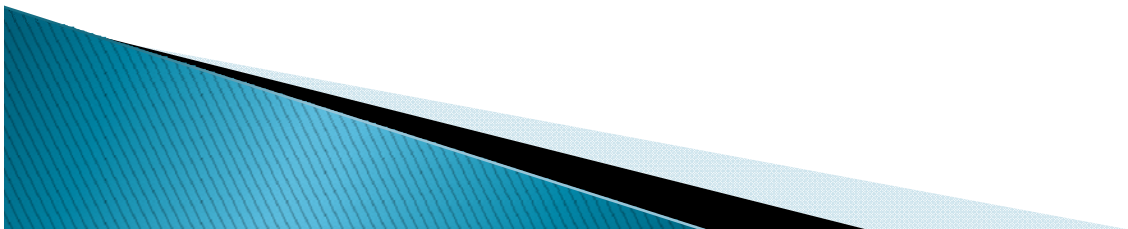
# Goals of Zero-Base Budgeting

- ▶ Identify our agency's core mission and any gaps between what we are required to do, what we are doing, and what we should be doing as a result of a thorough review of our agency's legal mandates;
- ▶ Ensure that every resource is utilized to its maximum potential for the purpose of creating the most efficient and effective organization possible within the dollars appropriated to it:
  - Account for every appropriated taxpayer dollar by identifying and scrutinizing the cost centers in your agency's base budget;
  - Assess alternative approaches to current cost center structures and practices to ensure that best practices are employed;
  - Priority rank the cost centers that make up our base budget.



# Zero-Base Budgeting Defined

- ▶ In its purest form, ZBB is an operating planning and budgeting process which:
  - Requires the manager to justify the entire budget request in detail from scratch;
  - Shifts the burden of proof to each manager to justify why any money should be spent; and
  - Requires that all activities and operations be identified in decision packages to be evaluated and priority ranked.
- ▶ The Idaho definition: A budgeting process wherein base budget cost centers are identified, justified, and then prioritized and aligned for the most efficient and effective fulfillment of an agency's strategic plan and statutory mission.



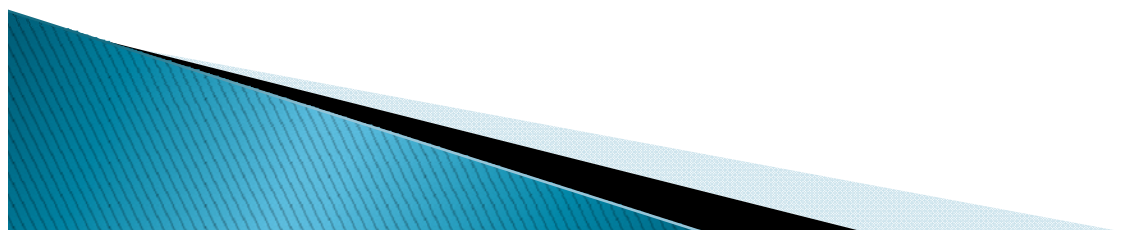
# Decision packages are the building blocks in ZBB and are . . .

- ▶ Documents that identify and describe cost centers in the base in such a way that management can evaluate and compare them with other cost centers. The package includes:
  - Purpose (goals and objectives and the tie to the strategic plan)
  - Performance measures, outcomes, and outputs of cost center
  - Statutory drivers
  - Costs and their justification
  - Adjustments if cost center (or some portion of it) is eliminated
  - Alternative structures and practices
  - Reconstructed costs



# Traditional Incremental Budgeting Deficiencies

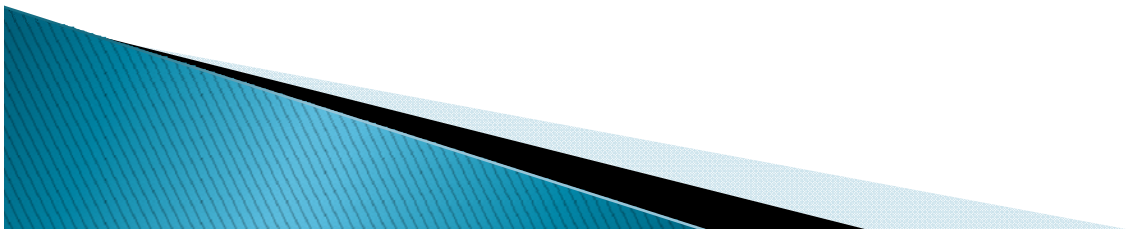
- ▶ Incremental budgeting tells us how much is being spent, but not necessarily what's going on, why, what better ways might be available and which efforts are really necessary, because everything is functionally buried in the base.
- ▶ It assumes that
  - present activities will be continued and fails to offer us the option of trading off a requested increase in one activity against a reduction in another;
  - each cost center that makes up the base budget is as valuable today as when it was first conceived;
  - all base cost centers are of equal value.

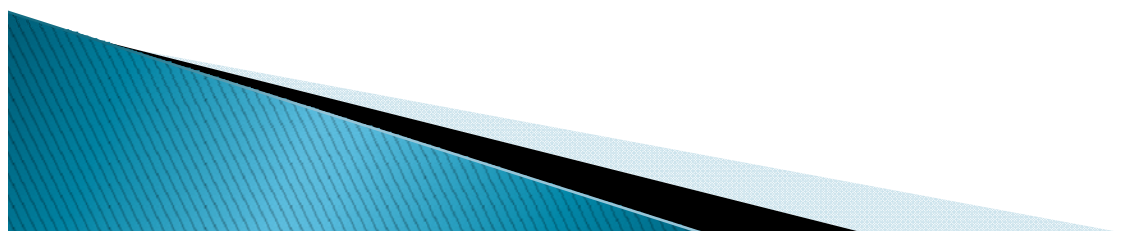




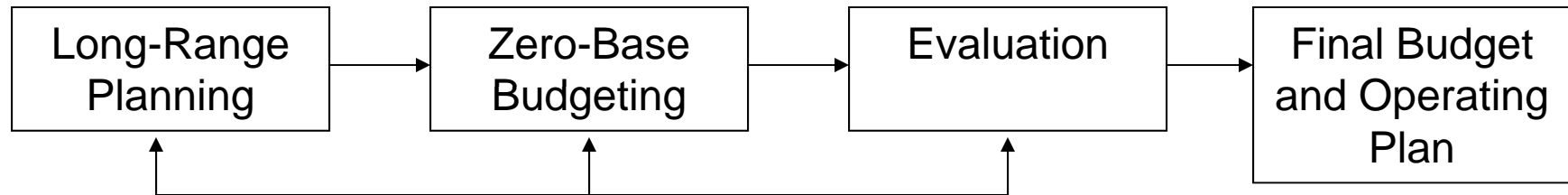
# Zero-Base Budgeting, On The Other Hand . . .

- ▶ Is a systematic way to evaluate operations and programs within the base, shift resources into high-priority efforts, and make necessary trade-offs.
- ▶ Is, despite its name, primarily a planning and decision-making technique, with a budget emphasis, that is designed to challenge us to assess *what* we're doing, *why* we're doing it, what we should be doing, and *how* we get to what we should be doing.





# Integration of Zero-Base Budgeting with Planning Process



## Revisions

- Make basic policy decisions.
- Set goals and objectives.
- Set relevant performance measures.
- Establish plans and programs.

Specify in detail and evaluate all cost centers, alternatives, and costs to achieve plans and performance measures.

Determine compatibility of budget packages with plan objectives:

- Do packages support plan?
- Should plan objectives be revised?
- Do we need new packages?
- Should we eliminate packages not supporting plan?

- Rank packages.
- Request funding.
- Monitor, control, and follow up.

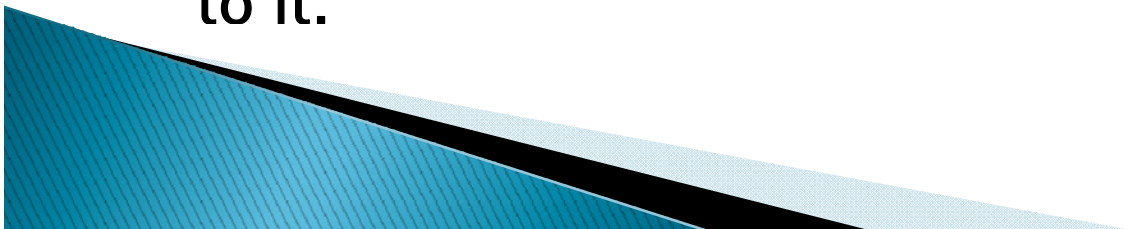
# Direct Benefits of ZBB

- ▶ Provides the opportunity for us to tell our agency's complete budget story;
- ▶ Highlights what's in the base, thus lending credibility to our budget request;
- ▶ Challenges us to think in terms of statutory drivers, performance, and our strategic plan through the ranking and prioritization of decision packages;
- ▶ Reveals where resources might be reallocated to better meet our core statutory mission and our strategic plan;
- ▶ Is a systematic, deliberative process that can help us make the necessary realignments to maximize our resources as we live within the "new base".
- ▶ Develops manager ownership of cost center budgets and is an effective tool for reaching down into the trenches of an agency to tap cost center managers and employees for input on better ways of doing business.



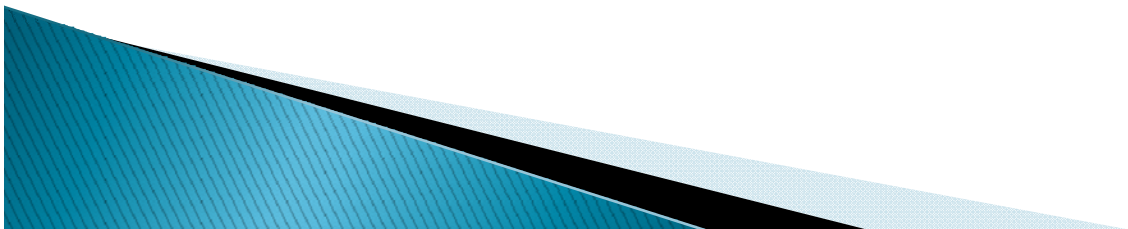
# Summary of Key Steps in the ZBB Process

- ▶ Conduct a complete review of your strategic plan;
- ▶ Identify cost centers and cost center related activities;
- ▶ Compare legal mandates to actual activities. This “gap analysis” will help establish a basis for “where we should be”;
- ▶ Conduct staff time study for each cost center;
- ▶ Develop decision packages for each cost center;
- ▶ Review and rank decision packages;
- ▶ Allocate or reallocate organizational resources; and
- ▶ Integrate into the current Budget Development System, particularly where there are base reductions, base program transfers, or line-items related to the ZBB effort. **Note: The ZBB effort does not replace the traditional Sept. 1<sup>st</sup> budget submission. It is in addition to it.**



# What It Will Take To Make It Work

- ▶ Consensus on the need to look at things from a different angle
- ▶ Collaborative process
- ▶ Flexibility to allow for creativity within ZBB parameters
- ▶ Committed leadership
- ▶ Committed staff



# Quote for the Day

“Because ZBB involves an aggressive search for alternative ways, it presupposes a cadre of innovative, creative managers. If they lack the will to search for, or necessary basic competence to uncover, better ideas and to stand up and be counted when the time comes to persuasively sell these new ideas, all the forms, procedures, and training from ZBB’s administrators and rah-rah from senior management will be for naught.”



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